

Edgar Filing: TECH LABORATORIES INC - Form 10QSB

TECH LABORATORIES INC  
Form 10QSB  
May 20, 2005

U.S. SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

FORM 10-QSB

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE QUARTERLY PERIOD ENDED MARCH 31, 2005.

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES AND EXCHANGE ACT OF 1934 FOR THE TRANSITION PERIOD FROM \_\_\_\_\_ TO \_\_\_\_\_

Commission File Number 000-27592

TECH LABORATORIES, INC.  
(Exact name of Small Business issuer in its charter)

New Jersey

22-1436279

-----  
(State or other jurisdiction of  
incorporation or organization)

-----  
(I.R.S. Employer Identification No.)

955 Belmont Avenue, North Haledon, NJ

07508

-----  
(Address of principal executive offices)

-----  
(zip code)

Registrant's telephone number, including area code: (973) 427-5333

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes  No

The number of shares of Common Stock, par value \$.01 per share, outstanding as of the latest practicable date: As of May 19, 2005, there were 143,119,294 shares outstanding.

TECH LABORATORIES, INC.

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TECH LABORATORIES, INC.  
BALANCE SHEETS  
(UNAUDITED)

ASSETS

	March 31, 2005	December 31, 2004
	-----	-----
Current Assets:		
Cash	\$ 9,398	\$ 106,283
Accounts receivable, net of allowance of \$1,000	24,554	10,679
Inventories	1,019,370	907,030
Prepaid expense	53,125	59,376
	-----	-----
Total current assets	1,106,447	1,083,368
	-----	-----
Certificate of deposit (restricted)	36,576	36,499
	-----	-----
Property, plant and equipment, at cost		
Leasehold improvements	2,247	2,247
Machinery, equipment, and instruments	608,917	608,917
Furniture and fixtures	109,584	109,584
	-----	-----
	720,748	720,748
	-----	-----
Less accumulated depreciation and amortization	447,457	442,570
	-----	-----

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Net property, plant and equipment	273,291	278,178
	-----	-----
Other	14,420	14,420
	-----	-----
Total Assets	\$ 1,430,734	\$ 1,412,465
	=====	=====

See notes to financial statements.

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TECH LABORATORIES, INC.  
BALANCE SHEETS  
(UNAUDITED)

LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIENCY)

	March 31, 2005	D
	-----	-----
Current liabilities:		
Convertible notes	\$ 789,900	\$
Note payable	34,444	
Accounts payable and accrued expenses	397,990	
	-----	-----
Total current liabilities	1,222,334	
Stockholders' equity		
Common stock, \$.01 par value;		
195,000,000 shares authorized;		
93,119,294 shares issued in 2005;		
88,161,612 shares issued in 2004	931,193	
Less: 15,191 shares reacquired and held in treasury	(113)	
	-----	-----
	931,080	
Capital contributed in excess of par value	5,417,985	
Accumulated deficit	(6,140,665)	
	-----	-----
Total stockholders' equity	208,400	
	-----	-----
Total liabilities and stockholders' equity	\$ 1,430,734	\$
	=====	=====

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See notes to financial statements.

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## TECH LABORATORIES, INC. STATEMENTS OF OPERATIONS (UNAUDITED)

	Three Months Ended March 31,	
	2005	2004
Sales	\$ 74,114	\$ 51,701
Costs and expenses:		
Cost of sales	26,296	29,811
Selling, general, and administrative expense	74,937	152,932
	101,233	182,743
Loss from Operations	(27,119)	(131,042)
Other expenses	(11,160)	(29,735)
Loss before income taxes	(38,279)	(160,777)
Provision for income taxes	-	-
Net Loss	(38,279)	(160,777)
Accumulated deficit, Beg Qtr.	(6,102,386)	(4,743,076)
Accumulated deficit, End Qtr.	(6,140,665)	(4,903,853)
Net loss per share, basic and diluted	\$ -	\$ (0.01)
Weighted average number of common shares and equivalent, basic and diluted	90,312,236	27,113,361

See notes to financial statements.

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TECH LABORATORIES, INC.

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STATEMENTS OF CASH FLOWS  
(UNAUDITED)

	Three Months Ended March 31,	
	2005	2004
Cash flow from (for) operating activities:		
Net loss from operations	\$ (38,279)	\$ (160,777)
Add (deduct) items not affecting cash:		
Depreciation	4,887	4,887
Amortization	6,251	-
Capitalized interest	11,015	-
Accrued expenses and other non-cash expenses		111,934
Changes in operating assets and liabilities		
Accounts receivable	(13,875)	(6,834)
Inventories	(112,340)	(76,394)
Accounts payable and accrued expenses	45,533	(9,791)
Other assets/liabilities		43,577
Net cash flow used in operating activities	(96,808)	(93,398)
Cash flows used in investing activities	(77)	753
Net decrease in cash	(96,885)	(92,645)
Cash balance beginning of year	106,283	165,308
Cash balance - end of first quarter	\$ 9,398	\$ 72,663
Supplemental schedule of noncash investing and financing activities:		
Conversion of debt to common stock	\$ 50,000	\$ 311,817

See notes to financial statements.

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TECH LABORATORIES, INC.  
NOTES TO FINANCIAL STATEMENTS  
FOR THE QUARTER ENDED MARCH 31, 2005  
(UNAUDITED)

1. BASIS OF PRESENTATION

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The accompanying unaudited financial statements of Tech Laboratories, Inc. ("the Company") have been prepared in accordance with generally accepted accounting principles for interim financial information and with Item 310(b) of Regulation SB. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. Operating results for the three months ended, March 31, 2005 are not necessarily indicative of the results that may be expected for the year ended December 31, 2004. These unaudited financial statements should be read in conjunction with the audited financial statements and footnotes thereto included in the Company's Form 10-KSB for the year ended, December 31, 2004, as filed with the Securities and Exchange Commission.

Certain prior year balances have been reclassified to conform to the current year presentation.

### 2. LONG-TERM CONVERTIBLE DEBT

On October 13, 2000, Tech Labs completed a \$1.5 million financing of 6.5% convertible promissory notes due October 15, 2002. Interest is payable quarterly in cash or in shares of common stock at the option of the noteholders. Tech Labs disclosed all terms of this financing on Form 8-K filed on October 18, 2000. As of March 31, 2005, \$986,913 of principal and interest on the 6.5% convertible notes has been converted into shares of Tech Labs' common stock.

On January 11, 2002, Tech Labs entered into a conversion and redemption agreement concerning this long-term debt. An Event of Default, as defined in the 6.5% convertible notes, occurred on January 25, 2002, when Tech Labs was unable to make the first payment of \$750,000 to the holders of the notes.

On April 19, 2002, Tech Labs successfully negotiated a cure of the default referenced above. This cure required that Tech Labs' registration statement, filed with the Securities and Exchange Commission on April 5, 2002, covering the shares underlying the 6.5% convertible notes, to have been declared effective on or before June 29, 2002. If the registration statement was declared effective by such date and Tech Labs made certain payments described in the Tech Labs' report on Form 8-K filed April 25, 2002, the maturity date of the 6.5% convertible notes would have been extended from October 13, 2002 to December 30, 2002.

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TECH LABORATORIES, INC.  
NOTES TO FINANCIAL STATEMENTS  
FOR THE QUARTER ENDED MARCH 31, 2005  
(UNAUDITED)

### 2. LONG-TERM CONVERTIBLE DEBT (Cont'd)

On August 2, 2002, the Company announced that an Event of Default occurred on the 6.5% convertible notes. The Company was unable to have its registration statement declared effective by June 29, 2002, and was unable to reach a new agreement with the holders of the 6.5% convertible notes prior to the expiration of the waiver the Company had been granted by the holders of the notes, which had been granted in order to permit the parties

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time to negotiate a new agreement. The Company continues to seek a cure for the default with the holders of the 6.5% convertible notes, and in October 2003, a cure was successfully negotiated and is described in the Company's 8-K filed in October, 2003. On May 18, 2004, the Company issued an additional \$250,000 convertible debenture at a rate of 5.0% due on May 18, 2007.

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### TECH LABORATORIES, INC. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATION

Quarter ending March 31, 2005, compared to Quarter ending March 31, 2004

Sales were \$74,114 for the first quarter of 2005 as compared to \$51,701 for the similar period of 2004. The increase in sales was due to increased orders for traditional products.

Cost of sales of \$26,296 for the first quarter of 2005 decreased by \$3,515 compared to the same period of 2004, primarily due to the sales of lower cost products.

Selling, administrative, and general expenses decreases by \$77,995 compared to the same period of 2004. The decrease was primarily due to the curtailment of marketing activities.

Loss from operations of \$27,119 decreased \$103,923 compared to a loss of \$131,042 for the prior period as a direct result of increased sales and reduced operating expenses.

#### SIGNIFICANT CHANGES

None

#### LIQUIDITY AND CAPITAL RESOURCES

The Company's operating activities utilized cash of \$96,885 during the three months ended, March 31, 2005, as compared to \$92,645 during the three months ended, March 31, 2004.

As a result of the continuing operating losses and negative cash flow experienced during 2003, 2004 and the first quarter of 2005, Tech Labs has a tenuous liquidity position. If sales do not improve or alternative financing is not obtained, substantial doubt exists about Tech Labs' ability to continue as a going concern.

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### TECH LABORATORIES, INC.

#### Item 3. Controls and Procedures

(a) Evaluation of disclosure controls and procedures.

Our Chief Executive Officer and Chief Financial Officer (collectively the "Certifying Officers") maintain a system of disclosure controls and

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procedures that is designed to provide reasonable assurance that information, which is required to be disclosed, is accumulated and communicated to management timely.

Under the supervision and with the participation of management, the Certifying Officers evaluated the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rule [13a-14(c)/15d-14(c)] under the Exchange Act) within 90 days prior to the filing date of this report. Based upon that evaluation, the Certifying Officers concluded that our disclosure controls and procedures are effective in timely alerting them to material information relative to our company required to be disclosed in our periodic filings with the SEC.

(b) Changes in internal controls.

Our Certifying Officers have indicated that there were no significant changes in our internal controls or other factors that could significantly affect such controls subsequent to the date of their evaluation, and there were no such control actions with regard to significant deficiencies and material weaknesses.

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### PART II - OTHER INFORMATION

#### Item 1. Legal Proceedings.

On July 31, 2002, Tawfik Khalil and Amneh Khalil filed a lawsuit in the Superior Court of Passaic County, New Jersey, against Glen Venza, a Company part-time employee, Tech Labs, and certain other parties for property damages and personal injuries. The case arose from a car accident involving Mr. Venza and the plaintiffs, which occurred while Mr. Venza was performing certain duties for Tech Labs in a vehicle Mr. Venza borrowed from a third party. Tech Labs has only been named as a party to the personal injuries, and not for property damages, and believes it is covered for the accident by its insurance policy.

On July 30, 2003, a former director and a former employee filed a joint lawsuit in Superior Court of New Jersey, Passaic County, against us for consulting fees and expenses, respectively. In the same lawsuit, W.T. Sports filed a claim for a commission owed on sales due from a licensing agreement with us. The claims by the former director and former employee are for about \$10,000 and we deny any liability under these claims and are defending the lawsuit. With regard to W.T. Sports, our agreement has an arbitration in case of dispute and therefore we are attempting to move this case to arbitration. We believe that we have a counterclaim, which is far in excess of the amount they claim we owe for the licensing fees. On November 11, 2004, an arbitration hearing took place. On December 31, 2004, the arbitrator awarded \$35,148 to WT Sports. Tech Labs can continue to manufacture the system in the United States.

On June 30, 2004, the law firm of Stursberg & Veith, former counsel to Tech Laboratories, Inc., filed a lawsuit in the United States District Court for the Southern District of New York claiming that the plaintiff delivered certain good and valuable services to Tech laboratories and is owed \$161,179.26 plus interest, costs, and disbursements for each cause of action, and other and further relief as the Court may deem necessary. The complaint alleges four causes of action including an unpaid account, stated breach of contract, quantum meruit, and unjust enrichment. We disagree with the amount of the unpaid balance owed to the plaintiff. We have filed a counterclaim for overcharging by the plaintiff.

#### Item 2. Changes in Securities.

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None.

Item 3. Defaults Upon Senior Securities.

Not Applicable.

Item 4. Submission of Matters to a Vote of Security Holders.

None.

Item 5. Other Information.

None.

Item 6. Exhibits and Reports of Form 8-K

On March 31, 2005, the Company filed an 8K based on a change in the Board of Directors of the Company.

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TECH LABORATORIES, INC.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Date: May 20, 2005

TECH LABORATORIES, INC.

By: /s/ Bernard M. Ciongoli

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Bernard M. Ciongoli  
Chief Executive Officer, Principal Financial  
Officer and Chief Accounting Officer

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